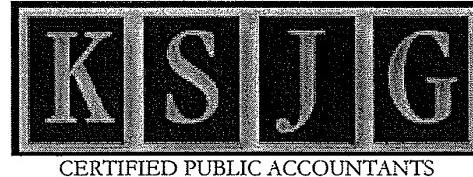


Kushner ■ Smith ■ Joanou ■ Gregson



JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

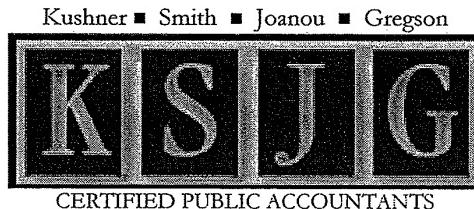
**Consolidated Financial Statements
Years Ended December 31, 2011 and 2010
(With Independent Auditor's Report Thereon)**

Kushner, Smith, Joanou & Gregson, LLP
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
James R. Glidewell Dental Ceramics, Inc.

We have audited the accompanying consolidated balance sheets of James R. Glidewell Dental Ceramics, Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of James R. Glidewell Dental Ceramics, Inc. as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kushner, Smith, Joanou & Gregson, LLP

April 26, 2012

Kushner, Smith, Joanou & Gregson, LLP
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JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Consolidated Balance Sheets
December 31, 2011 and 2010

ASSETS

	2011	2010
Current assets:		
Cash	\$ 1,781,000	\$ 2,079,000
Accounts receivable (less allowance for doubtful accounts of \$1,020,000 and \$1,010,000, respectively)	29,048,000	25,006,000
Inventory (Note 2)	8,666,000	7,535,000
Other current assets	809,000	586,000
Prepaid expenses	1,188,000	1,069,000
Total current assets	<u>41,492,000</u>	<u>36,275,000</u>
Property, plant and equipment:		
Property, plant, and equipment (Notes 3 and 7)	42,046,000	38,778,000
Less accumulated depreciation and amortization	<u>(29,099,000)</u>	<u>(26,228,000)</u>
Net property, plant and equipment	<u>12,947,000</u>	<u>12,550,000</u>
Other assets:		
Goodwill	2,050,000	1,953,000
Other long-term assets	<u>598,000</u>	<u>421,000</u>
Total other assets	<u>2,648,000</u>	<u>2,374,000</u>
Total assets	<u>\$ 57,087,000</u>	<u>\$ 51,199,000</u>

(Consolidated balance sheets continued on the following page)

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

**Consolidated Balance Sheets
(Continued)
December 31, 2011 and 2010**

LIABILITIES AND STOCKHOLDER'S EQUITY

	2011	2010
Current liabilities:		
Current portion - long-term debt (Note 6)	\$ 1,163,000	\$ 830,000
Current portion - capital lease obligations (Note 7)	209,000	313,000
Accounts payable	9,867,000	6,529,000
Accrued liabilities (Note 5)	2,998,000	2,636,000
Income taxes payable	193,000	96,000
Total current liabilities	<u>14,430,000</u>	<u>10,404,000</u>
Long-term liabilities:		
Note payable to bank (Note 4)	15,565,000	13,065,000
Long-term debt (Note 6)	2,091,000	3,371,000
Capital lease obligations (Note 7)	534,000	743,000
Total liabilities	<u>32,620,000</u>	<u>27,583,000</u>
Commitments, related party and litigation (Notes 7 and 8)		
Stockholder's equity:		
Common stock	2,000	2,000
Additional paid-in capital	17,000	17,000
Retained earnings	29,598,000	23,597,000
Non-controlling interest	(5,150,000)	--
Total stockholder's equity	<u>24,467,000</u>	<u>23,616,000</u>
Total liabilities and stockholder's equity	<u>\$ 57,087,000</u>	<u>\$ 51,199,000</u>

See accompanying notes to consolidated financial statements

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Consolidated Statements of Income
Years Ended December 31, 2011 and 2010

	<u>Percentage of Revenue</u>		<u>Percentage of Revenue</u>	
Revenues	<u>\$ 251,872,000</u>	<u>100.0%</u>	<u>\$ 221,571,000</u>	<u>100.0%</u>
Cost of sales:				
Materials	36,324,000	14.4	34,212,000	15.5
Labor	91,499,000	36.3	80,166,000	36.2
Freight	25,166,000	10.0	19,792,000	8.9
Total cost of sales	<u>152,989,000</u>	<u>60.7</u>	<u>134,170,000</u>	<u>60.6</u>
Gross profit	98,883,000	39.3	87,401,000	39.4
Selling, general and administrative expenses	84,646,000	33.6	73,587,000	33.2
Research and development	<u>6,314,000</u>	<u>2.5</u>	<u>3,045,000</u>	<u>1.3</u>
Operating income	<u>7,923,000</u>	<u>3.2</u>	<u>10,769,000</u>	<u>4.9</u>
Other (expense):				
Other income (expense)	225,000	0.1	(2,966,000)	(1.3)
Interest expense	(630,000)	(0.3)	(863,000)	(0.5)
Total other (expense)	<u>(405,000)</u>	<u>(0.2)</u>	<u>(3,829,000)</u>	<u>(1.8)</u>
Income before taxes and non-controlling interest	7,518,000	3.0	6,940,000	3.1
Provision for income taxes (Note 1)	<u>128,000</u>	<u>--</u>	<u>115,000</u>	<u>--</u>
Income before non-controlling interest	7,390,000	3.0	6,825,000	3.1
Net loss attributable to non-controlling interest	<u>1,322,000</u>	<u>0.5</u>	<u>--</u>	<u>--</u>
Net income	<u>\$ 8,712,000</u>	<u>3.5%</u>	<u>\$ 6,825,000</u>	<u>3.1%</u>

See accompanying notes to consolidated financial statements

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.
Consolidated Statements of Stockholder's Equity
Years Ended December 31, 2011 and 2010

	<u>Shares Issued and Outstanding</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Non- Controlling Interest</u>	<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
Balance at December 31, 2009	20,000	\$ 2,000	\$ 17,000	--	\$ 20,372,000	\$ 20,391,000
Distributions	--	--	--	--	(3,600,000)	(3,600,000)
Net income for the year ended December 31, 2010	--	--	--	--	6,825,000	6,825,000
Balance at December 31, 2010	20,000	2,000	17,000	--	23,597,000	23,616,000
Inclusion of previously unconsolidated subsidiary (Note 9)	--	--	--	(3,828,000)	3,539,000	(289,000)
Distributions	--	--	--	--	(6,250,000)	(6,250,000)
Net income for the year ended December 31, 2011	--	--	--	(1,322,000)	8,712,000	7,390,000
Balance at December 31, 2011	<u>20,000</u>	<u>\$ 2,000</u>	<u>\$ 17,000</u>	<u>\$ (5,150,000)</u>	<u>\$ 29,598,000</u>	<u>\$ 24,467,000</u>

See accompanying notes to consolidated financial statements

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net income	\$ 8,712,000	\$ 6,825,000
Adjustments to reconcile net income to net cash provided from operating activities:		
Non-controlling interest	(1,322,000)	--
Depreciation and amortization	3,902,000	4,897,000
Loss on disposal of assets	320,000	160,000
Write-off of investment	--	3,300,000
Change in assets and liabilities		
(Increase) in assets:		
Accounts receivable - net	(4,042,000)	(2,689,000)
Inventory	(815,000)	(1,312,000)
Prepaid expenses and other assets	(500,000)	(36,000)
Increase (decrease) in liabilities:		
Accounts payable	3,338,000	1,250,000
Accrued liabilities and income taxes payable	(80,000)	108,000
Net cash provided from operating activities	<u>9,513,000</u>	<u>12,503,000</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(4,524,000)	(3,136,000)
Acquisition of goodwill	(97,000)	--
Purchase of investment	--	(3,300,000)
Net cash (applied) from investing activities	<u>(4,621,000)</u>	<u>(6,436,000)</u>

(Consolidated statements of cash flows continued on the following page)

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Consolidated Statements of Cash Flows
(Continued)
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from financing activities:		
Distributions to stockholder	(6,250,000)	(3,600,000)
Net activity on note payable to bank	2,500,000	--
Repayment of note payable to stockholder	(630,000)	(1,680,000)
Repayment of long-term debt	(728,000)	(695,000)
Repayment of capital lease obligations	<u>(313,000)</u>	<u>(240,000)</u>
Net cash (applied) from financing activities	<u>(5,421,000)</u>	<u>(6,215,000)</u>
Net (decrease) in cash	(529,000)	(148,000)
Cash at beginning of year	2,079,000	2,227,000
Cash at beginning of year from previously unconsolidated subsidiary (Note 9)	<u>231,000</u>	<u>--</u>
Cash at end of year	<u>\$ 1,781,000</u>	<u>\$ 2,079,000</u>
Supplemental disclosures of cash flows information:		
Cash paid during the year for:		
Interest	<u>\$ 631,000</u>	<u>\$ 810,000</u>
Income taxes	<u>\$ 2,000</u>	<u>\$ 48,000</u>
Non-cash investing and financing activities:		
Incurred capital lease for the acquisition of equipment	<u>\$ --</u>	<u>\$ 623,000</u>

See accompanying notes to consolidated financial statements

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Notes to Consolidated Financial Statements
December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basic of Presentation - The consolidated financial statements include the accounts of James R. Glidewell Dental Ceramics, Inc. and its wholly-owned and majority owned subsidiaries, (the "Company"). All significant transactions among the consolidated entities have been eliminated from the consolidated financial statements.

Nature of Business - The Company provides dental laboratory services to licensed dentists throughout the United States.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risks - The Company's sales are not materially dependent on a single customer or on a small group of customers. The Company performs ongoing credit evaluations on its customers and generally does not require collateral. The Company maintains reserves for potential credit losses and such losses have been within management's expectations.

The Company maintains cash deposits with a major banking institution in which the deposits are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times during the year, the Company had deposits in excess of the FDIC maximum.

Accounts Receivable - Current earnings are charged with an allowance for doubtful accounts based on experience and any unusual circumstances that may affect the ability of customers to meet their obligations. Accounts receivable are reflected in the consolidated balance sheet net of such accumulated allowances. Accounts deemed uncollectible have been charged against the allowance.

Inventory - Inventory is stated at the lower of cost or market (net realizable value). Cost is determined using the first-in, first-out method. Inventory cost includes materials, labor, overhead and freight. Market value is determined by comparison with recent purchases or net realizable value.

(Note 1 continued on the following page)

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Notes to Consolidated Financial Statements
(Continued)
December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment - Property, plant and equipment are stated at cost. Depreciation and amortization expenses are calculated on the straight-line method. The depreciation method is designed to amortize the cost of the assets over the estimated useful lives, in years, of the respective assets as follows:

Automobiles	5
Laboratory equipment	5
Office furniture and equipment	3 to 7
Leasehold improvements	15 to 39

Maintenance and repairs are charged to expense as incurred. Renewals and improvements of a major nature are capitalized. At the time of retirement, or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any gains or losses are reflected in income.

Income Taxes - The Company has elected subchapter "S" corporation status whereby all profits are taxed directly to the stockholder. Accordingly, only state income taxes are normally provided for at 1.5% of taxable income or \$800, whichever is greater.

The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. There was no recognition of uncertain tax positions required at December 31, 2011 and 2010.

The Company files income tax returns in the U.S. federal jurisdiction and various states. As a matter of course, various taxing authorities, including the Internal Revenue Service, regularly audit the Company.

The following table summarizes the open tax years for each major jurisdiction:

<u>Jurisdiction</u>	<u>Open Tax Years</u>
Federal	2008 – 2010
State	2003 – 2010

(Note 1 continued on the following page)

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Notes to Consolidated Financial Statements
(Continued)
December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued) - As of December 31, 2011, the Company was under audit for the years ended December 31, 2003, 2004 and 2005 by the California Franchise Tax Board. The Company believes their tax positions comply with applicable tax law and that they have adequately provided for these matters. As such, no liability has been recorded in connection with the aforementioned audit.

The Company accounts for interest and penalties associated with income tax obligations as a component of income tax expense. For the years ended December 31, 2011 and 2010 the Company recognized no interest or penalties as part of the provision for income taxes in the Consolidated Statements of Income.

Compensated Absences - The Company has not accrued vacation pay since they cannot be reasonably estimated. The Company's policy is to recognize these costs when actually paid.

Letters of Credit - As collateral for performance on insurance contracts, the Company is contingently liable under standby letters of credit in the amounts of \$1,824,000 and \$1,930,000 at December 31, 2011 and 2010, respectively. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace.

Profit Sharing Plan - The Company has a defined contribution 401(k) profit sharing plan (the Plan) that covers substantially all employees. The Plan permits employees to make voluntary contributions. The Plan allows employer-matching contributions. Matching contributions made to the Plan for the years ended December 31, 2011 and 2010 were \$1,417,000 and \$133,000, respectively.

Advertising Expense - The Company expenses advertising costs as they are incurred. Total advertising expense was \$8,643,000 and \$7,784,000 for the years ended December 31, 2011 and 2010, respectively.

Revenue Recognition - Revenues are recognized upon shipment of product to customers.

Goodwill - Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Other intangible assets are amortized over their estimated useful lives.

The Company tests goodwill for impairment using a two-step process. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company performed the required impairment tests of goodwill based on the carrying values as of December 31, 2011 and 2010. As a result of performing the test for potential impairment, the Company determined that no impairment existed as of December 31, 2011 and 2010, and, therefore, it was not necessary to write down any of its goodwill.

(Note 1 continued on the following page)

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Notes to Consolidated Financial Statements
(Continued)
December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued) - Assessing goodwill for impairment requires certain judgments and estimates in the preparation of the consolidated financial statements. Future events could cause the Company to conclude that impairment indicators exist and that goodwill is impaired. Any resulting impairment loss could reduce the Company's net worth and have an adverse effect on its financial condition and results of operations.

Long-Lived Assets - The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company determined that no impairment loss needed to be recognized for the years ended December 31, 2011 and 2010.

Subsequent Events - The Company evaluated subsequent events through April 26, 2012, the date these consolidated financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

NOTE 2 - INVENTORY

Inventory consists of the following at December 31, 2011 and 2010:

	2011	2010
Raw materials	\$ 8,073,000	\$ 6,942,000
Work in process	<u>593,000</u>	<u>593,000</u>
	<u>\$ 8,666,000</u>	<u>\$ 7,535,000</u>

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31, 2011 and 2010:

	2011	2010
Automobiles	\$ 240,000	\$ 213,000
Laboratory equipment	18,320,000	16,872,000
Office furniture and equipment	14,033,000	12,400,000
Leasehold improvements	<u>9,453,000</u>	<u>9,293,000</u>
	<u>42,046,000</u>	<u>38,778,000</u>
Less accumulated depreciation and amortization	<u>(29,099,000)</u>	<u>(26,228,000)</u>
	<u>\$ 12,947,000</u>	<u>\$ 12,550,000</u>

Depreciation and amortization expense related to property, plant and equipment at December 31, 2011 and 2010 was \$3,902,000 and \$4,897,000, respectively.

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Notes to Consolidated Financial Statements
(Continued)
December 31, 2011 and 2010

NOTE 4 - NOTE PAYABLE TO BANK

The note payable to bank consists of a line of credit providing for borrowings including outstanding letters of credit of up to \$30,000,000 and is secured by substantially all of the Company's assets. Interest on the outstanding principal balance is determined by the Company at the bank's reference rate which was 3.25% at December 31, 2011. Interest is payable monthly. The current line of credit has a maturity date of January 1, 2013. At December 31, 2011 and 2010, the amount outstanding was \$15,565,000 and \$13,065,000, respectively.

The Company's credit agreement also provides for a \$2,500,000 capital expenditure commitment. At December 31, 2011, the Company had no borrowings under this commitment.

On March 31, 2008, the credit agreement was amended to provide two additional specific advance facilities (SAF): A \$2,000,000 SAF to fund certain tenant improvements and a \$3,000,000 SAF to fund construction of an operatory and to fund investments in/advances to a development stage enterprise. At December 31, 2011 and 2010, there was \$1,421,000 and \$2,071,000, respectively, outstanding under the two SAFs (Note 6).

Under the terms of the credit facility, as amended, the Company is required to meet certain financial covenants, which include a capital expenditure limit, current ratio, a fixed charge coverage ratio, a senior leverage ratio and certain levels of consolidated and subsidiary profitability. Additional lease obligations and loans require prior consent of the bank.

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Freight	\$ 916,000	\$ 1,003,000
Payroll and taxes	477,000	181,000
Health plan claims	550,000	550,000
Sales tax	194,000	179,000
Interest	142,000	142,000
Other	719,000	581,000
	<u>\$ 2,998,000</u>	<u>\$ 2,636,000</u>

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Notes to Consolidated Financial Statements
(Continued)
December 31, 2011 and 2010

NOTE 6 - LONG-TERM DEBT

Long-term debt at December 31, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Unsecured variable rate (3.25% at December 31, 2011) note payable to bank due October 1, 2013, payable in monthly installments of \$25,000 plus interest.	\$ 575,000	\$ 875,000
Unsecured variable rate (3.25% at December 31, 2011) note payable to bank due April 1, 2014, payable in monthly installments of \$29,000 plus interest.	846,000	1,196,000
Unsecured 7.65% note payable to stockholder due February 28, 2016, payable in monthly installments of \$15,000 plus interest. This note is subordinated to the note payable to bank (Note 4).	1,500,000	2,130,000
Unsecured notes payable to non-controlling interest with interest rates of 6% to 8% payable at the Company's discretion.	<u>333,000</u> <u>3,254,000</u>	<u>--</u> <u>4,201,000</u>
Less current portion	<u>(1,163,000)</u>	<u>(830,000)</u>
	<u>\$ 2,091,000</u>	<u>\$ 3,371,000</u>

The aggregate maturities of long-term debt for each of the next five years and thereafter are as follows:

Years ending December 31:	
2012	\$ 1,163,000
2013	806,000
2014	325,000
2015	180,000
2016	180,000
Thereafter	<u>600,000</u>
	<u>\$ 3,254,000</u>

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Notes to Consolidated Financial Statements
(Continued)
December 31, 2011 and 2010

NOTE 7 - COMMITMENTS AND RELATED PARTY

Operating Leases - The Company conducts its operations in leased facilities. Six of the Company's facilities are leased from a related party, the Company stockholder. Monthly rental payments to the related party increase annually and will range from \$38,000 to \$230,000 during 2012. Rental payments to the related party for the years ended December 31, 2011 and 2010 were \$8,176,000 and \$7,410,000, respectively. Total facility lease payments for the years ended December 31, 2011 and 2010 were \$8,837,000 and \$7,796,000, respectively.

The Company leases certain computer equipment under various non-cancelable operating leases. Total rental expense for these computer leases for the years ended December 31, 2011 and 2010 was \$523,000 and \$377,000, respectively.

The following is a schedule of minimum lease commitments under the facilities and computer equipment operating leases, for the next five years.

Years ending December 31:	Related Party	Unrelated Parties	Total Commitments
2012	\$ 8,807,000	\$ 389,000	\$ 9,196,000
2013	8,959,000	302,000	9,261,000
2014	9,168,000	125,000	9,293,000
2015	9,399,000	--	9,399,000
2016	9,711,000	--	9,711,000
Thereafter	1,703,000	--	1,703,000
	<u>\$ 47,747,000</u>	<u>\$ 816,000</u>	<u>\$ 48,563,000</u>

(Note 7 continued on the following page)

JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Notes to Consolidated Financial Statements
(Continued)
December 31, 2011 and 2010

NOTE 7 - COMMITMENTS AND RELATED PARTY (Continued)

Obligation Under Capital Leases - The Company is the lessee of equipment under capital leases expiring in 2014 and 2015, with interest rates of 2.78% to 6.41%.

As of December 31, 2011, minimum future lease payments under capital leases are as follows:

Years ending December 31:	
2012	\$ 235,000
2013	235,000
2014	219,000
2015	<u>104,000</u>
Total future minimum lease payments	793,000
Less amount representing interest	<u>(50,000)</u>
Present value of future minimum lease payments	743,000
Less current portion	<u>(209,000)</u>
	\$ <u>534,000</u>

The leased assets represent equipment, which are included in fixed assets and are depreciated over their estimated useful life. As of December 31, 2011 and 2010, the cost and accumulated depreciation of the equipment securing these leases are as follows:

	2011	2010
Aggregate cost of leased equipment	\$ 1,031,000	\$ 1,796,000
Less accumulated depreciation	<u>(288,000)</u>	<u>(752,000)</u>
Net cost	<u>\$ 743,000</u>	<u>\$ 1,044,000</u>
Depreciation expense	<u>\$ 206,000</u>	<u>\$ 236,000</u>

Note Payable to Stockholder - The Company also has a note payable to stockholder (Note 6).

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JAMES R. GLIDEWELL DENTAL CERAMICS, INC.

Notes to Consolidated Financial Statements
(Continued)
December 31, 2011 and 2010

NOTE 8 - LITIGATION

The Company is involved in certain litigation arising in the normal course of its business. Management, having consulted with its counsel, believes these matters will not, either individually or in the aggregate, have any material adverse impact on its operating results or financial position.

**NOTE 9 - FINANCIAL STATEMENTS CURRENTLY CONSOLIDATED TO INCLUDE
THE ACCOUNTS OF A PREVIOUSLY UNCONSOLIDATED SUBSIDIARY**

Effective January 1, 2011, the Company achieved majority ownership and control of its subsidiary, IOS Technologies, Inc. and began to consolidate into its financial statements the accounts of IOS Technologies, Inc., formerly an unconsolidated subsidiary. Financial data presented for previous years have not been restated to reflect the consolidation of IOS Technologies, Inc. The unconsolidated account balances for IOS Technologies, Inc. as of December 31, 2010 were as follows:

Cash	\$ 231,000
Inventory	316,000
Prepaid expenses	19,000
Property, plant and equipment - net	95,000
Accrued liabilities	(539,000)
Long-term debt	(411,000)
Retained earnings	(3,539,000)
Non-controlling interest	<u>3,828,000</u>
	\$ <u> </u>